

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE WHOLESALE)	
WATER SERVICE RATE OF MONTGOMERY)	CASE NO. 97-400
COUNTY WATER DISTRICT NO. 1)	

O R D E R

Montgomery County Water District No. 1 ("Montgomery District"), a water district organized pursuant to KRS Chapter 74, is a public utility subject to Commission jurisdiction. KRS 278.015. It owns and operates a water distribution system in Montgomery County, Kentucky, which provides retail water service to 569 customers and wholesale water service to the city of Jeffersonville, Kentucky ("Jeffersonville"). Montgomery District has no water production facilities and purchases its total water requirements from the city of Mount Sterling ("Mount Sterling").

In 1992 Montgomery District and Jeffersonville entered a "Water Purchase Agreement" which provided for a "flow-through water arrangement." Under the terms of this agreement, Montgomery District purchases Jeffersonville's total water requirements from Mount Sterling and then resells this water to Jeffersonville at cost plus a surcharge of 5 cents per 1,000 gallons. The parties are to review the surcharge every five years and "adjust upward as required based on demonstrative costs." Commission records do not indicate that Montgomery District has formally filed this agreement with the Commission as KRS 278.160(1) and Administrative Regulation 807 KAR 5:011, Section 13, require.

On April 2, 1996, Montgomery District applied for a rate adjustment to its retail service rates.¹ It did not propose any adjustment to the rate which it charged Jeffersonville. Commission Staff reviewed the proposed rate adjustment and, in its Staff Report on the application, recommended that changes be made to Montgomery District's wholesale rate. More specifically, Commission Staff recommended that the existing rate of \$1.60 per 1,000 gallons of water be increased to \$1.88 per 1,000 gallons, or approximately 18 percent.² When no objections were made to Commission Staff's recommendations, the Commission on July 10, 1996 adopted the recommended rates.³

In early 1997, Jeffersonville complained by letter to the Commission about the rate increase.⁴ In response to this letter, the Commission has reviewed the proceedings in Case No. 96-118 and its tariff records. During this review, the Commission has discovered existence of the contract between Montgomery District and Jeffersonville and Montgomery District's failure to file this contract with the Commission. It has further discovered that neither the Staff Report nor the case record reflects any knowledge or thorough understanding of the contractual arrangement between Montgomery District and Jeffersonville. Montgomery District's current wholesale rate, therefore, may not accurately reflect the costs of its transactions with Jeffersonville.

¹ Case No. 96-118, Application of the Montgomery County Water District No. 1 for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities (filed Apr. 2, 1996).

² Staff Report on Case No. 96-118, June 20, 1996, at 6-7.

³ Order of July 10, 1996 at 2.

⁴ Letter from Caswell P. Lane to Kentucky Public Service Commission of Feb. 3, 1997.

Based upon these findings, the Commission concludes that an investigation should be commenced into the reasonableness of Montgomery District's wholesale rate. This investigation will not duplicate formal proceedings which Jeffersonville has recently initiated against Montgomery District.⁵ That proceeding focuses solely upon Montgomery District's right to adjust unilaterally its wholesale rate.

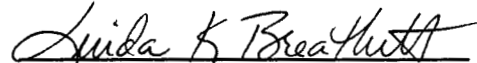
IT IS THEREFORE ORDERED that:

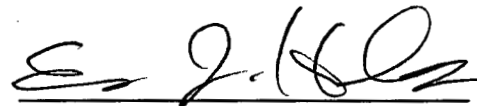
1. An investigation into Montgomery District's wholesale water service is opened.
2. Montgomery District and Jeffersonville are made parties to this proceeding.
3. Montgomery District shall file with the Commission the original and 8 copies of the following information listed in Appendix A within 20 days of the date of this Order, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility.
4. Administrative notice is taken of Montgomery District's Annual Reports to the Commission for Calendar Years 1994, 1995, and 1996.

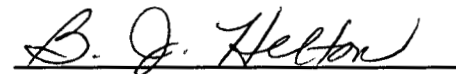
⁵ Case No. 97-377, City of Jeffersonville v. Montgomery County Water District (filed Sep. 2, 1997).

Done at Frankfort, Kentucky, this 1st day of October, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-400 DATED OCTOBER 1, 1997

1. Provide all contracts between Montgomery District and Jeffersonville which relate to the provision of wholesale water service.
2.
 - a. Provide all correspondence between Montgomery District and Jeffersonville in which the provision of wholesale water service is discussed.
 - b. Provide all internal memoranda and documents, including any engineering or economic studies, in which Montgomery District's wholesale water service to Jeffersonville is discussed.
3. Provide all correspondence between Montgomery District and Jeffersonville in which the Water Purchase Agreement is discussed or in which negotiations which led to the Water Purchase Agreement are discussed.
4. Provide all contracts between Montgomery District and Mount Sterling which relate to the provision of wholesale water service.
5.
 - a. Provide all correspondence between Montgomery District and Mount Sterling in which the provision of wholesale water service is discussed.
 - b. Provide all internal memoranda and documents in which Montgomery District's water service contract with Mount Sterling is discussed.
6. What facilities on Montgomery District's water distribution system are jointly used by Montgomery and Jeffersonville? If any water distribution lines are jointly used, provide the size and length of each line.

7. Provide a narrative description of the events which led to the 1992 Water Purchase Agreement between Montgomery District and Jeffersonville.

8. Provide the number of gallons of water which Jeffersonville purchases from Montgomery District in each of the following years:

- a. 1994
- b. 1995
- c. 1996

9. Provide Montgomery District's total water sales (in gallons) for the following years:

- a. 1994
- b. 1995
- c. 1996

10. a. Has Montgomery District, prior to this proceeding, filed a copy of the 1992 Water Purchase Agreement with the Commission?

- b. If yes, when?
- c. If no, why not?

11. a. Prior to July 10, 1996, did Montgomery District file a rate schedule with the Commission which reflected the rate that it assessed Jeffersonville for wholesale water service?

- b. If yes, when?
- c. If no, why not?

12. How was the rate in the 1992 Water Purchase Agreement derived?

13. a. Does Montgomery District agree with the following statement: "The sale of water to Jeffersonville at a rate which is 5 cents above the rate which Mount Sterling charges Montgomery District provides Montgomery District with enough revenue to cover all expenses associated with water sales to Jeffersonville"?

b. Explain the response to part (a).